



FINANCIAL INCENTIVES FOR HERITAGE INVESTMENT

UNPACKING GOVERNMENT'S ROLE AND TAX SYSTEM POTENTIAL

Presentation by Paul Berg-Dick
November 2, 2013



Presentation Outline

- Role for Government in Heritage Investment
- Instruments available to Government
- Impact of Various Instruments on Incentive to Invest

Role for Government

- Investment in Heritage Buildings provide **two** types of returns
 - **Private** return to the investor
 - **Public** benefits to society who are able to see their living history
 - **Social** return on investment is sum of both private return and public benefits
- Investment in heritage buildings has a *positive externality* that cannot be captured by private sector
- Government assistance required to achieve optimal level of heritage investment

Instruments available

- Grants (Federal, Provincial, Municipal)
 - Applicable to corporations, non-profits
- Income Tax Incentives (FP)
 - Tax Credits
 - Refundable
 - » similar to grant for entities subject to tax
 - Non-refundable
 - » Valuable only when there is tax payable to offset
 - Accelerated Capital Cost Allowance
 - Provides interest-free loan to investor
 - Valuable only when there is tax payable to offset
- Property Tax Incentives (M)
 - Reduced property taxes or reduced development charges

Grants vs Tax Incentives

Grants

- Broad potential recipient group
- Fixed amount of funding
- Funds allocated by bureaucrats
- Can have complex application procedures

Tax Incentives

- Only entities subject to tax can potentially qualify
- Need to be in taxable position to benefit (other than refundable tax credits)
- No limits to funding – all eligible will benefit
- Subject to post-investment audit by CRA

Impact of Various Instruments on Incentive to Invest

- Capital costs of heritage project generate tax offsets or tax shields
 - Tax offsets or tax shields reduce financing costs and can reduce project risk
- Main tax offset relates to capital cost allowance (CCA), which is 5% declining balance for buildings and renovations
- Additional tax offsets can take form of accelerated CCA (tax deferral – interest free loan) or tax credits (tax reduction)

Tax Deferral – Interest Free Loan Value of Accelerated CCA

Accelerated CCA - Tax Deferral - \$100 Investment					
Year	Status Quo CCA	Accelerated CCA	Difference	Fed Tax Offset	Prov tax Offset
1	20	100	80	8	4
2	20	0	-20	-2	-1
3	20	0	-20	-2	-1
4	20	0	-20	-2	-1
5	20	0	-20	-2	-1
Cumulative			0	0	0

Simulation of Tax Support for Heritage Investments

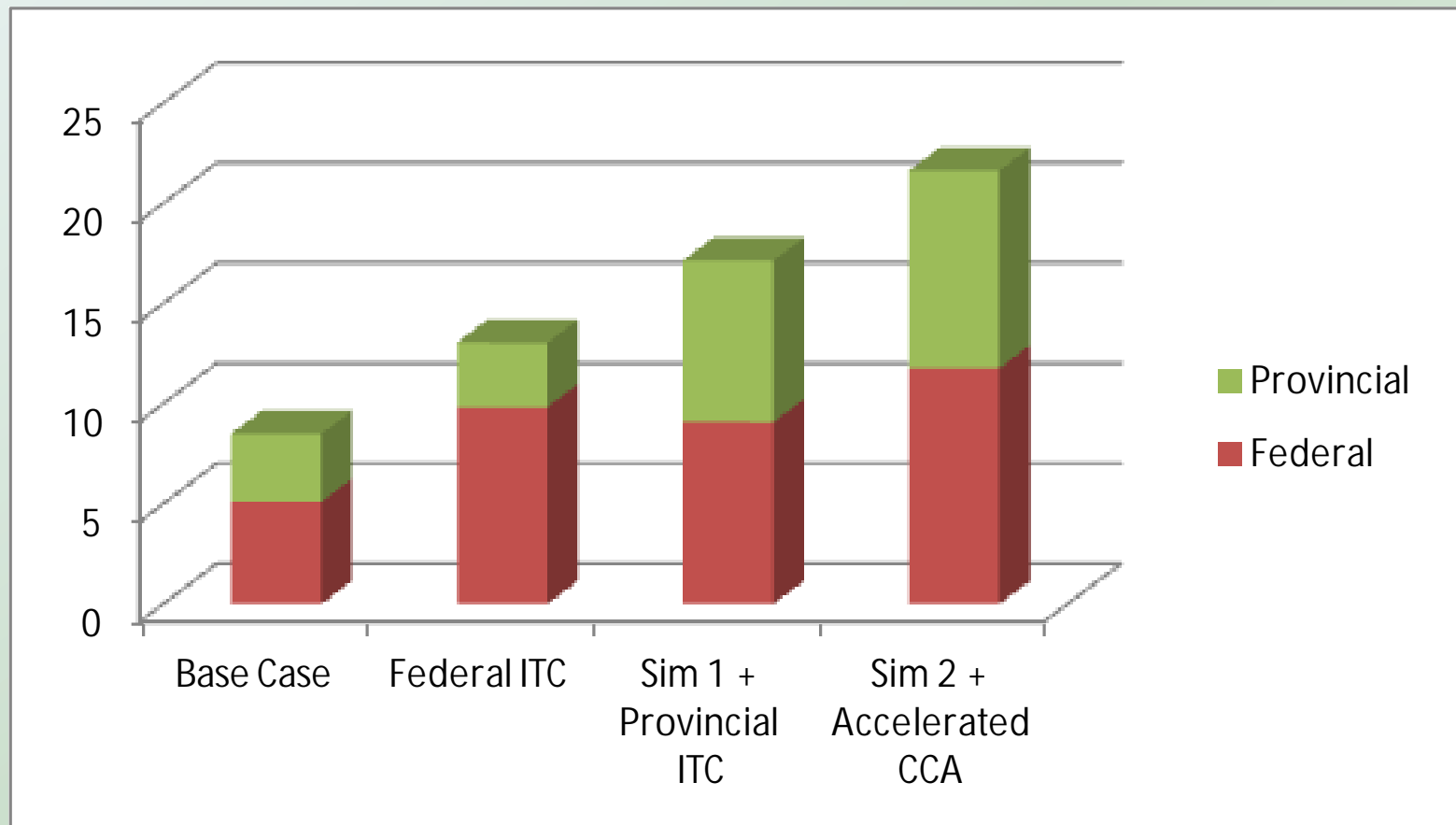
Assumptions	
Project Costs	Total
Costs of Restoration	500,000
Capital Costs - Betterment	500,000
Total	1,000,000
Parameters	Base Case
Discount rate	10%
Federal Tax Rate	15%
Provincial Tax Rate	10%

Simulation Descriptions	Status Quo
CCA - Restoration	5%
CCA - Betterment	5%
% Restoration Costs Capitalized	100%
ITC Federal - Restoration	0%
ITC - Provincial - Restoration	0%
ITC - Federal - Betterment	0%
ITC - Provincial - Betterment	0%

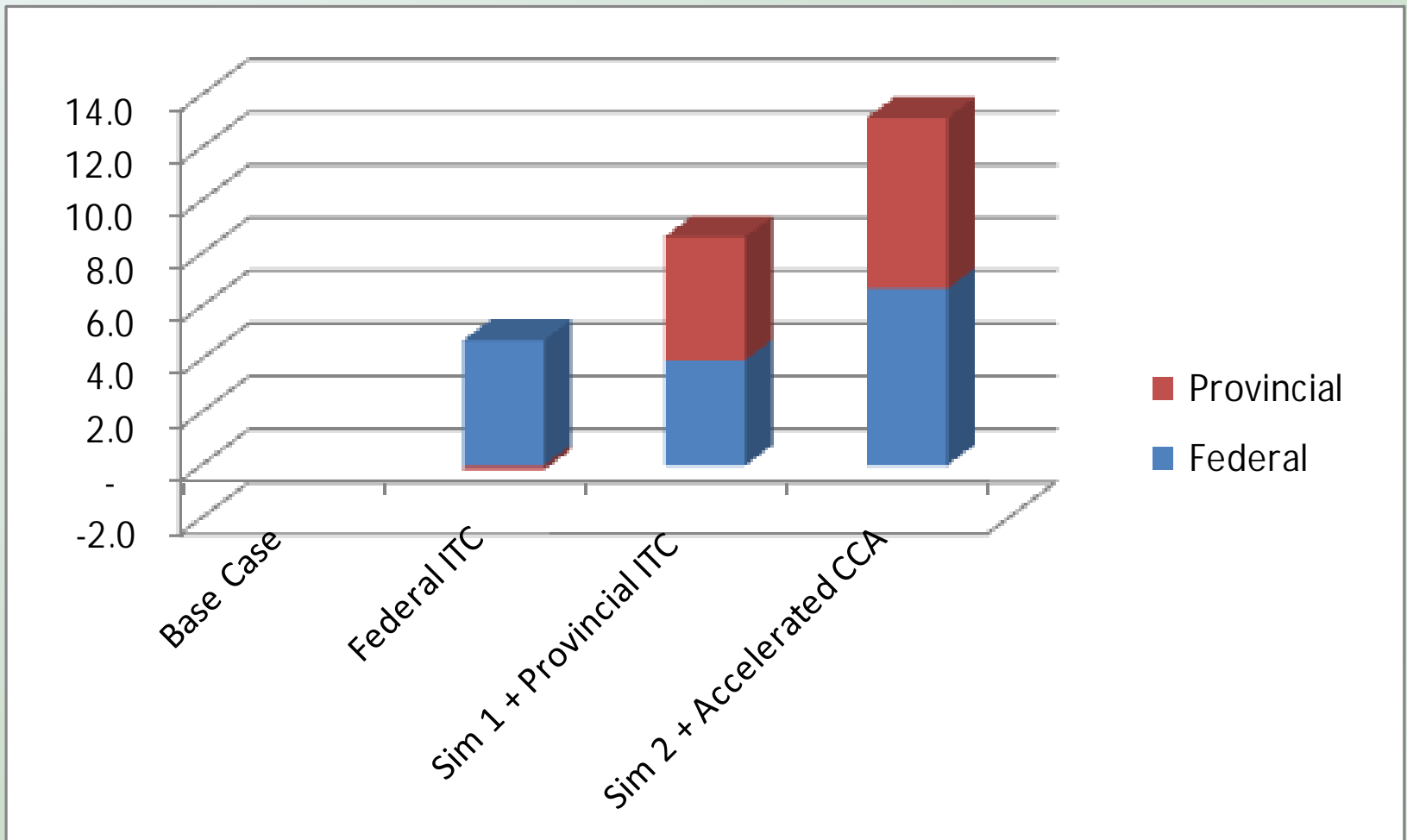
Simulation of Tax Support for Heritage Investments

Simulation Number		1	2	3
			Sim 1 + Provincial ITC	Sim 2 + Accelerated CCA
Simulation Descriptions	Status Quo	Federal ITC	ITC	CCA
CCA - Restoration	5%			30%
CCA - Betterment	5%			
% Restoration Costs Capitalized	100%			
ITC Federal - Restoration	0%	10%	10%	10%
ITC - Provincial - Restoration	0%		10%	10%
ITC - Federal - Betterment	0%			
ITC - Provincial - Betterment	0%			

Simulation of Tax Support for Heritage Investments



Incremental Impact of Tax Support for Heritage Investments



Summary and Conclusions

- Government has role in encouraging heritage investments
 - Positive externality for public
- Grants and tax credits among instruments available to support additional investment
 - Each has pros and cons in terms of clientele, administration, funding, and transparency
- Impact of various instruments can be simulated by choosing a typical project and then comparing results in terms of incentive to invest



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Appendix:

Numerical Results of Simulation

Sim #		1	2	3
Revenue Impact (% of Project Costs)	Base Case		Sim 1 + Provincial ITC	Sim 2 + Accelerated CCA
	Federal	5.1	9.8	9.1
	Provincial	3.4	3.2	8.1
	Total	8.5	13.0	17.1
Incremental Impact				
Federal		4.7	4.0	6.7
Provincial	-	0.2	4.7	6.5
Total		4.6	8.7	13.1